

BKM Capital Partners



Q4 2025

LIGHT INDUSTRIAL

MARKET UPDATE

JANUARY 2026



BKM INTEL

THOUGHT LEADERSHIP SERIES

INTRO

The industrial real estate market continues to recalibrate following the volatility of the past few years, but one segment has remained notably resilient: small-bay industrial. As broader industrial fundamentals normalize, demand, pricing power, and liquidity within the small-bay sector continue to outperform larger size segments, supported by structural demand drivers, constrained supply, and deepening capital market interest.

The vast majority of industrial leasing activity is concentrated in units under 50,000 square feet, reinforcing the role small-bay product plays in servicing local and regional occupiers. This imbalance has translated into market-leading occupancy and rent growth, with small-bay assets achieving higher absorption and stronger leasing spreads than larger buildings. Limited new supply further amplifies this advantage, as construction pipelines for small-bay inventory remain extremely constrained relative to big-box development.

Capital markets have also responded accordingly. Sale prices for sub-100,000 square foot buildings are appreciating at a faster pace than larger industrial properties, while deal flow is increasingly concentrated in smaller transaction sizes. This renewed liquidity reflects growing confidence that small-bay industrial is well positioned to outperform as valuations recover from prior years.

On the demand side, secular tailwinds continue to support the sector's long-term outlook. AI, automation, and data-driven logistics are increasing demand for last-mile and infill space, while e-commerce continues to sustain 3PL and distribution leasing near population centers. A rebound in domestic manufacturing, driven by reshoring, semiconductor investment, and data-center supply chains, is also boosting manufacturing-driven demand.

These forces are clearly visible in key markets such as Los Angeles, where port activity, leasing velocity, and rent growth continue to strengthen amid a halted construction pipeline. Infill submarkets are experiencing particularly tight conditions, with leasing activity returning to pre-pandemic figures and long-term rent growth providing sustainable income opportunities.

Taken together, the data reinforces a consistent theme: small-bay industrial remains fundamentally advantaged. As the industrial sector moves into its next phase, small-bay assets remain attractive for both income stability and long-term value creation.



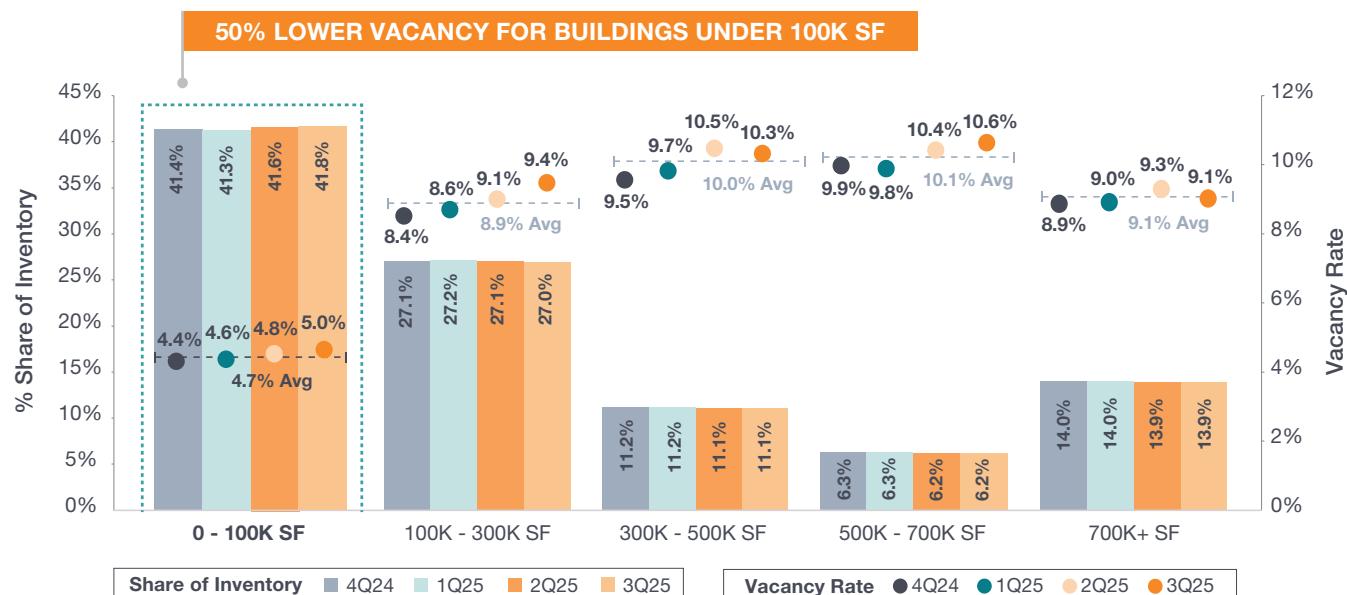
SMALL-BAY FUNDAMENTALS CONTINUE TO OUTPERFORM

Small-bay industrial fundamentals continue to demonstrate clear outperformance, supported by resilient demand, steady rent growth, and a severely constrained supply pipeline. Leasing activity remains heavily concentrated in smaller spaces, driving strong occupancy and pricing power—particularly in high-quality assets and top-tier markets. Together, these dynamics are reinforcing the competitive advantages of well-located small-bay portfolios and positioning the sector for sustained future performance.

- + **Portfolio Outperformance:** **4-6% higher occupancy** in BKM portfolio vs. competitors, with **17-21% average leasing spreads.**¹
- + **Demand Concentrated in Small-Bay:** **81% of all industrial leasing activity** in H1 2025 consisted of leases under 50K SF.²
- + **Explosive Rent Growth:** **100% increase in rents over the past 10 years** for high-quality small-bay units.³
 - » In BKM's portfolio, in-place **rents are 5-10% higher than competitors.**¹
- + **Standout Markets:** Las Vegas, Phoenix, LA, and Houston show accelerating demand with **vacancy trending toward single digits.**⁴
- + **Absorption Rebounds:** **2X Increase in net absorption QoQ**, reaching 38.6M SF and bringing the YTD total to 101M SF.⁵
- + **Squeezed Small-Bay Supply:** **Less than 1% of small-bay inventory is under construction**, compared to 3.5% for properties over 500K SF.⁶

¹BKM Intel. ²Newmark Research, 3Q 2025. ³Trowbridge Development, 3Q 2025. ⁴BKM Intel, CBRE, 3Q 2025. ⁵JLL, 3Q 2025. ⁶CoStar, December 2025.

QUARTERLY INDUSTRIAL VACANCY RATE BY BUILDING SIZE



Source: CoStar, Newmark Research, August 2025.

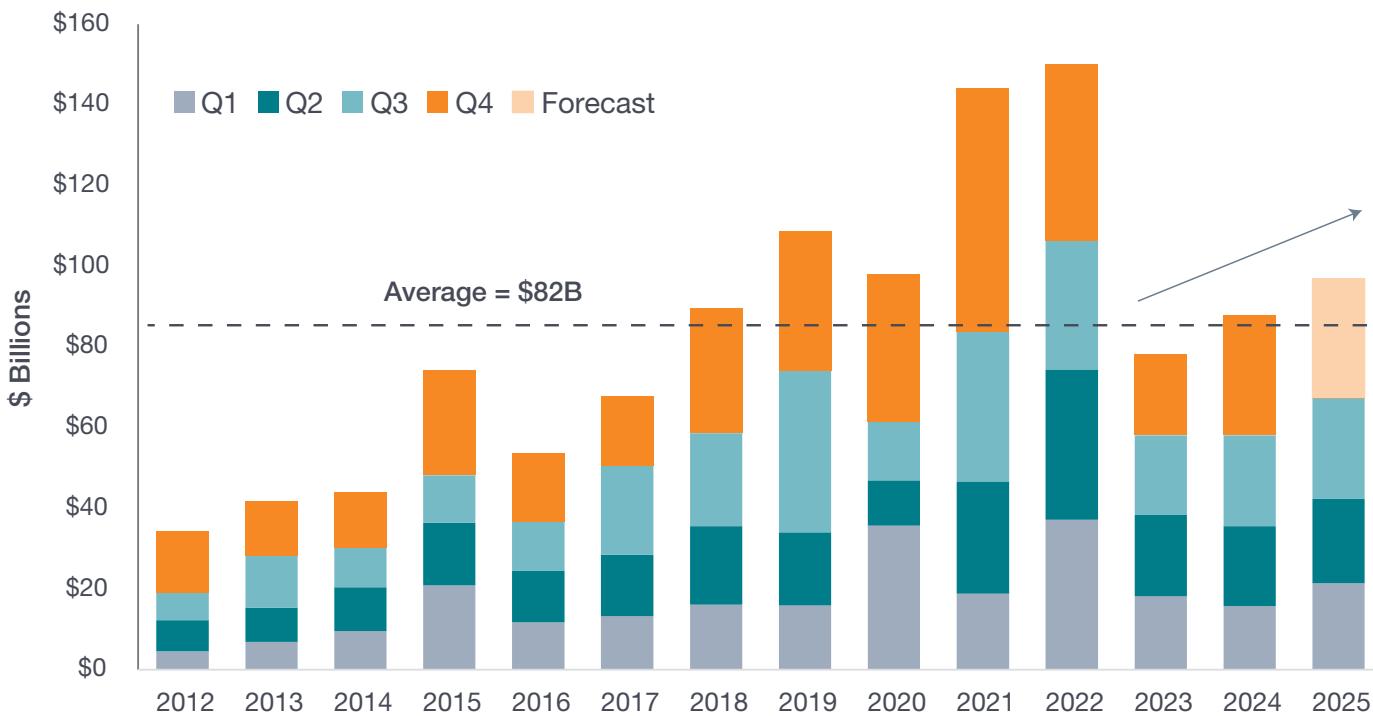
CAPITAL MARKETS FAVOR SMALL-BAY ASSETS

Institutional and private capital are increasingly shifting towards small-bay industrial, recognizing the sector's favorable fundamentals amid rocky conditions across other traditional asset types. While overall industrial transaction activity has rebounded post-COVID, smaller transactions continue to hold a majority share of total activity, driving value appreciation and improved liquidity.

- + **Deep Capital Interest:** \$2.2B in transaction activity in Q3 confirms strong institutional demand for small-bay industrial as the sector rebounds from the late 2023 valuation trough.¹
- + **Value Appreciation:** 10.6% YoY increase in average sale price for buildings sub-100K SF, vs. 3.5% growth for properties between 100K-1M SF.²
- + **Increased Liquidity:** 16% increase in liquidity YoY with strong transaction volume in Q3.³
 - » Deals under \$100M accounted for 70% of total deal volume across the past four quarters.⁴

¹BKM Intel, December 2025. ²Yardi Matrix, November 2025. ³JLL, 3Q 2025. ⁴Newmark Research, 3Q 2025.

HISTORICAL INDUSTRIAL AND LOGISTICS TRANSACTION VOLUMES



Source: JLL Research, 2025.



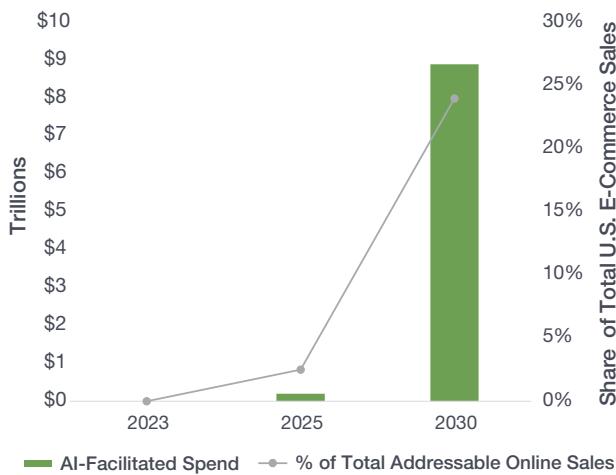
DEMAND DRIVERS: AI, E-COMMERCE, AND LAST-MILE LOGISTICS

Artificial intelligence, automation, and e-commerce are reshaping industrial demand, accelerating leasing activity while redefining how and where space is utilized. As logistics networks become more efficient and digitally driven, occupiers are prioritizing well-located facilities that support last-mile delivery, modern fulfillment, and vendor proximity—driving sustained demand for light industrial real estate.

ARTIFICIAL INTELLIGENCE

- + The warehouse automation market will grow from **\$25 billion in 2024 to a projected \$54 billion by 2029.**¹
- + AI-driven logistics and manufacturing will continue to shrink space requirements, **notably in last-mile markets.**
- + **Advancements in AI will help occupiers identify optimal warehouse locations faster**, boosting absorption and transaction velocity.
- + Forecasts predict that **AI-facilitated shopping could reach nearly 25% of total online sales globally by 2030**, from the current benchmark of 5%.²

GLOBAL AI-FACILITATED ONLINE SPEND (\$T)

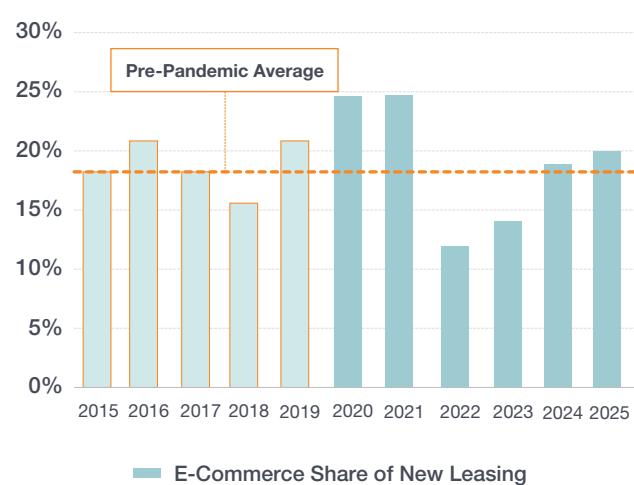


Source: Newmark Research, 3Q 2025.

E-COMMERCE AND LAST-MILE LOGISTICS

- + 3PL, logistics, and distribution lead industrial demand, **averaging 254% more activity than the next four largest industries.**³
- + **20% of all leases in Q3 were 3PL users.**⁴
- + Holiday retail sales are expected to exceed \$1T for the first time in 2025, **with 20-25% of those sales projected to be made online.**⁵
- + **25% of new leasing in 2026 will involve e-commerce** as the proportion of goods sold online rises to almost 20% globally by year-end.⁶

E-COMMERCE LEASING, GLOBAL



Source: Prologis, November 2025.

¹NAIOP Research Foundation, October 2025. ²Newmark Research, 3Q 2025. ³JLL 2025-2026 Industrial Tenant Demand Study. ⁴JLL, 3Q 2025. ⁵Deloitte, Adobe. ⁶Prologis, November 2025.

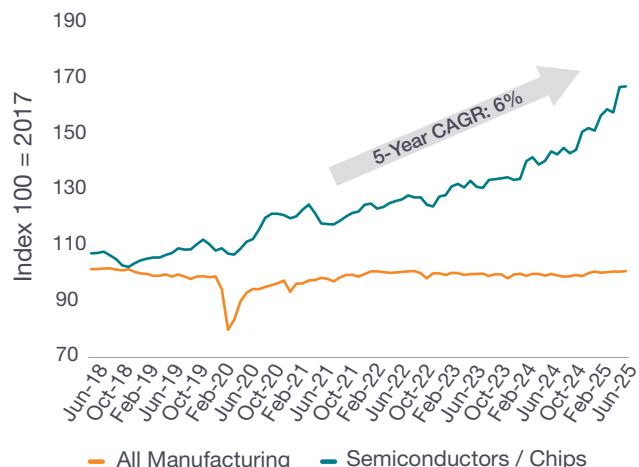
DEMAND DRIVERS: THE DOMESTIC MANUFACTURING SURGE

Leasing activity amongst manufacturing occupiers has exploded in the past year, supported by major growth in the semiconductor industry and the United States' initiatives aimed at reducing foreign manufacturing reliance. Major project announcements across the United States totaling nearly \$17B will serve as catalysts for job growth and infrastructure development, positioning the U.S. as a major manufacturing player against international competitors.

- + **330% surge in manufacturing leasing YoY**, marking a third consecutive quarter of growth as supplier / vendor networks prioritize domestic production.¹
- + **Manufacturing spending reached 114 billion dollars in July 2025**, nearly double the pre-pandemic five-year average.²
- + **Data center growth has accelerated manufacturing demand**, notably for chip providers and other semiconductors.²

¹JLL, 3Q 2025. ²Newmark Research, 3Q 2025.

U.S. INDUSTRIAL PRODUCTION INDEX

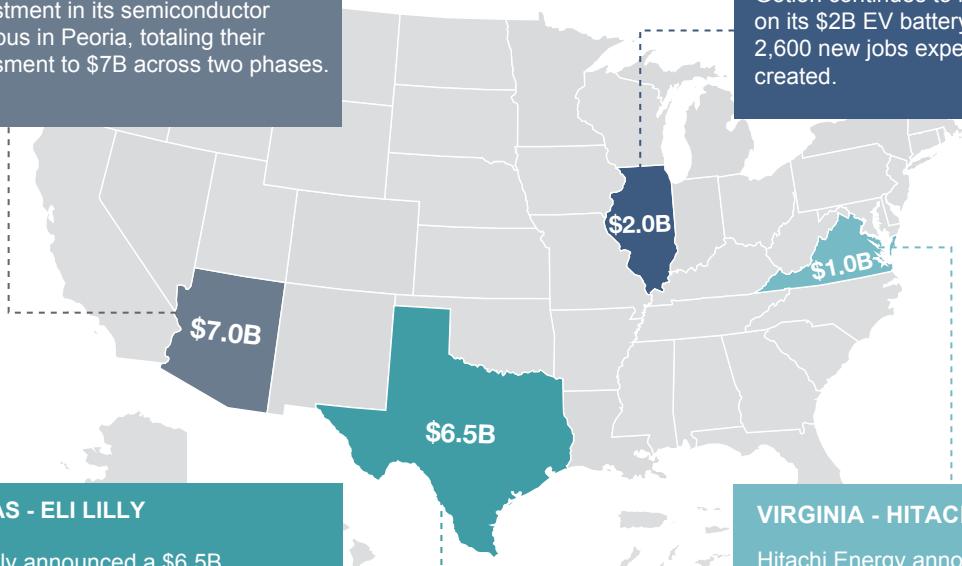


Source: Newmark Research, 3Q 2025.

SELECT MAJOR MANUFACTURING PROJECT UPDATES AND NEW ANNOUNCEMENTS

ARIZONA - AMKOR TECHNOLOGY

Amkor announced an additional \$5B investment in its semiconductor campus in Peoria, totaling their investment to \$7B across two phases.



TEXAS - ELI LILLY

Eli Lilly announced a \$6.5B investment for a manufacturing campus in Houston, where they plan to employ 615 workers.

ILLINOIS - GOTION

Gotion continues to make progress on its \$2B EV battery plant, with over 2,600 new jobs expected to be created.

VIRGINIA - HITACHI ENERGY

Hitachi Energy announced a \$457M investment in South Boston, creating 825 new jobs as part of a broader \$1B expansion effort.

Source: Newmark Research, 3Q 2025.

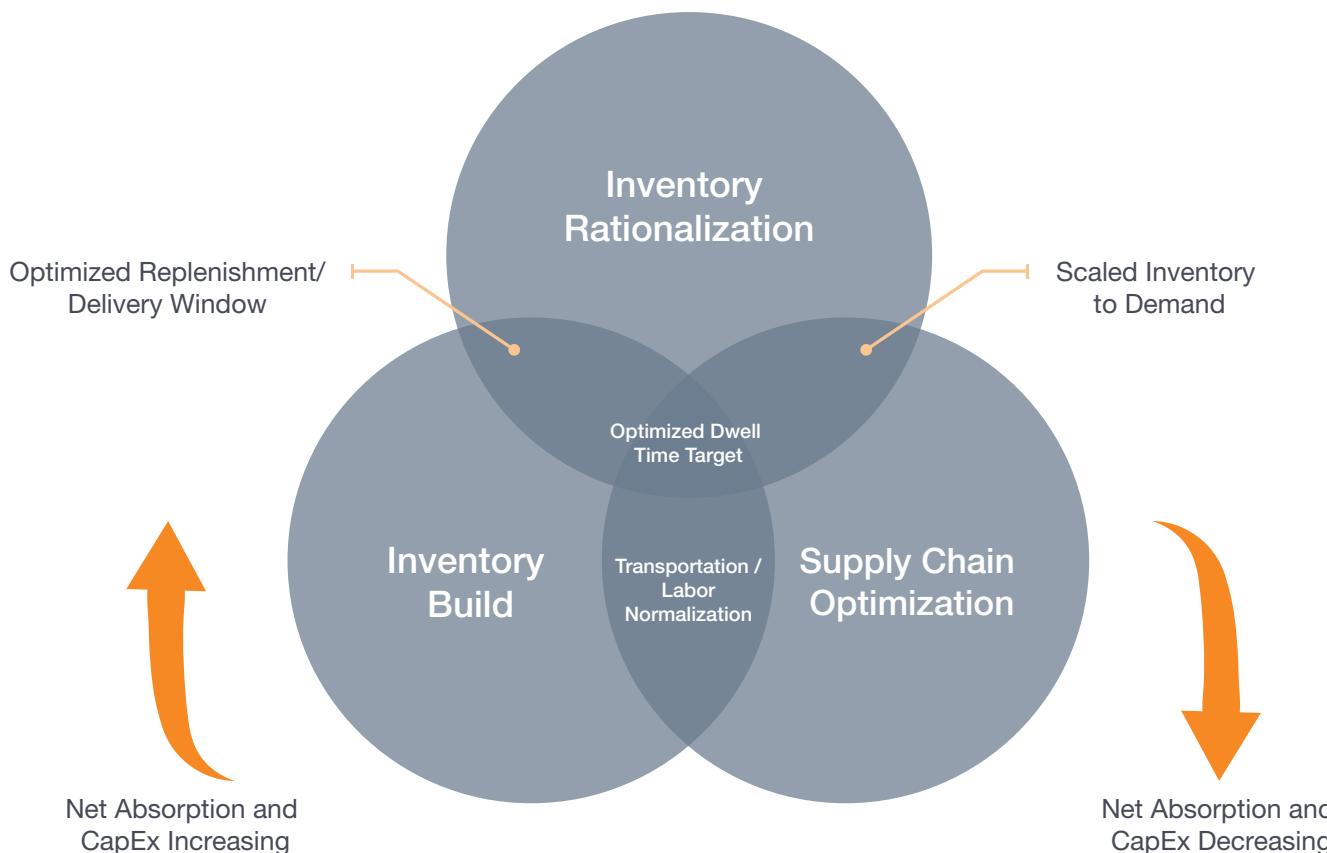
SUPPLY CHAIN SHIFTS POSE OPPORTUNITY FOR LOGISTICS WAREHOUSING

Shifting conditions among national and international supply chains are triggering the evolution of tenant requirements towards amenity-rich, well-connected supplier networks, emphasizing the need for localized infrastructure and power-ready facilities that can seamlessly support modern operations.

- + **Power-ready logistics facilities that support automation and manufacturing will be a top-three global location-selection factor in 2026.¹**
- + **A rising number of small and midsize defense suppliers are entering the market as U.S. defense spending increases**, boosting industrial leasing for localized, secure supply chains.¹
- + Shrinking trucking capacity will trigger double-digit rate hikes in 2026, **increasing transportation's share of supply chain spend and elevating the value of well-located logistics real estate.¹**
- + **Shipping a 40' container from Shanghai to LA now costs \$2,647, 58% lower than a year ago**, offering competitive pricing for retailers looking to front-load inventory.²

¹Prologis, November 2025. ²Reuters, October 2025.

CYCLICAL FACTORS DRIVING WAREHOUSING NETWORKS



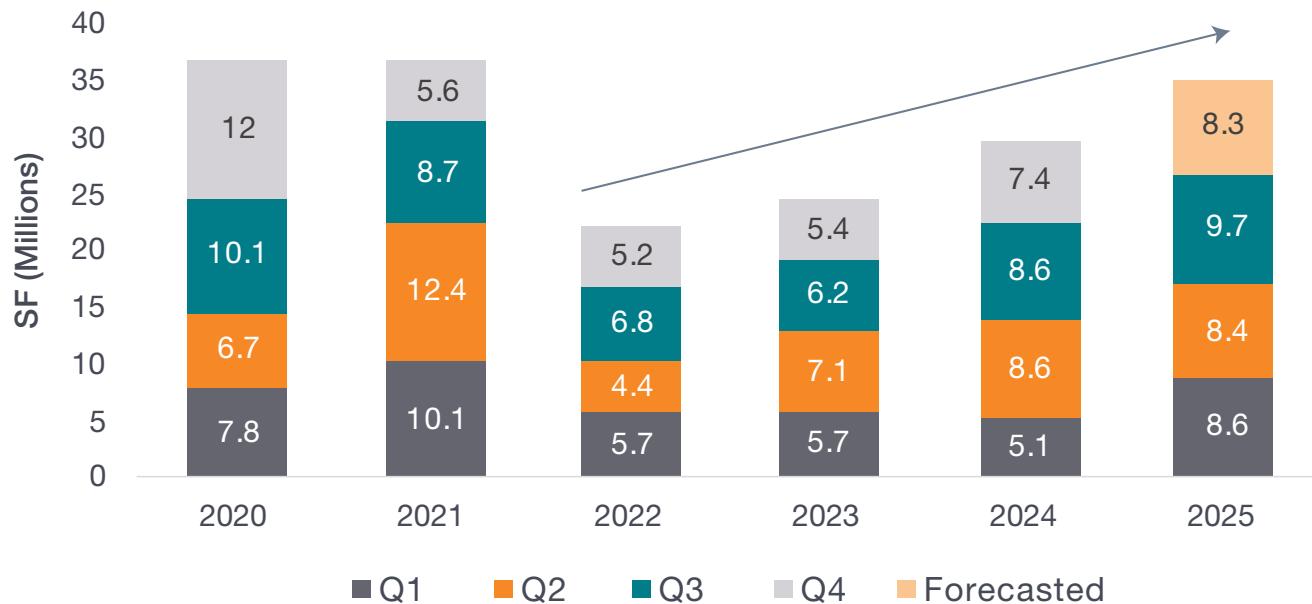
MARKET SNAPSHOT - LOS ANGELES, CA

- + **Port Activity Increases:** 2024 port volume at San Pedro Bay rose 20% YoY, marking a record year for Long Beach and the second busiest for LA. YTD 2025 volumes are on pace to meet or exceed 2024.¹
- + **Leasing Volume Picks Up:** Q3 recorded 9.7M SF of new leasing, up 16.3% QoQ and 13.2% YoY, the fastest pace since 2Q21. YTD 2025 leasing is 26.7M SF, the strongest first three quarters since 2021.²
- + **Construction Pipeline Tapers:** Only 0.78% of inventory is under construction.³ As of Q3, 4M SF is underway, down 47% from the 3Q23 peak and the lowest level since 2Q18.⁴
- + **Long Term Rent Growth:** Asking rents have grown 48.5% above 4Q19 pre-COVID levels.² **Similarly, BKM rates in Los Angeles have increased 50% between 2020-2024.**⁵

CENTRAL LOS ANGELES (0-100K SF) ⁶		SOUTH BAY (0-100K SF) ⁶		MID-COUNTIES (0-100K SF) ⁶	
Industrial Base	149M SF	Industrial Base	110M SF	Industrial Base	63.5M SF
Vacancy	5.8%	Vacancy	5.9%	Vacancy	4.8%
Inv Under Construction	<0.1%	Inv Under Construction	0.2%	Inv Under Construction	<0.1%
YTD Leasing Volume	5.5M SF	YTD Leasing Volume	3.5M SF	YTD Leasing Volume	3.0M SF

¹Transport Topics. ²Colliers, 3Q 2025. ³CBRE, 3Q 2025. ⁴CoStar, 3Q 2025. ⁵BKM Intel, 4Q 2025. ⁶CoStar, November 2025.

NEW INDUSTRIAL LEASING ACTIVITY, LOS ANGELES METRO

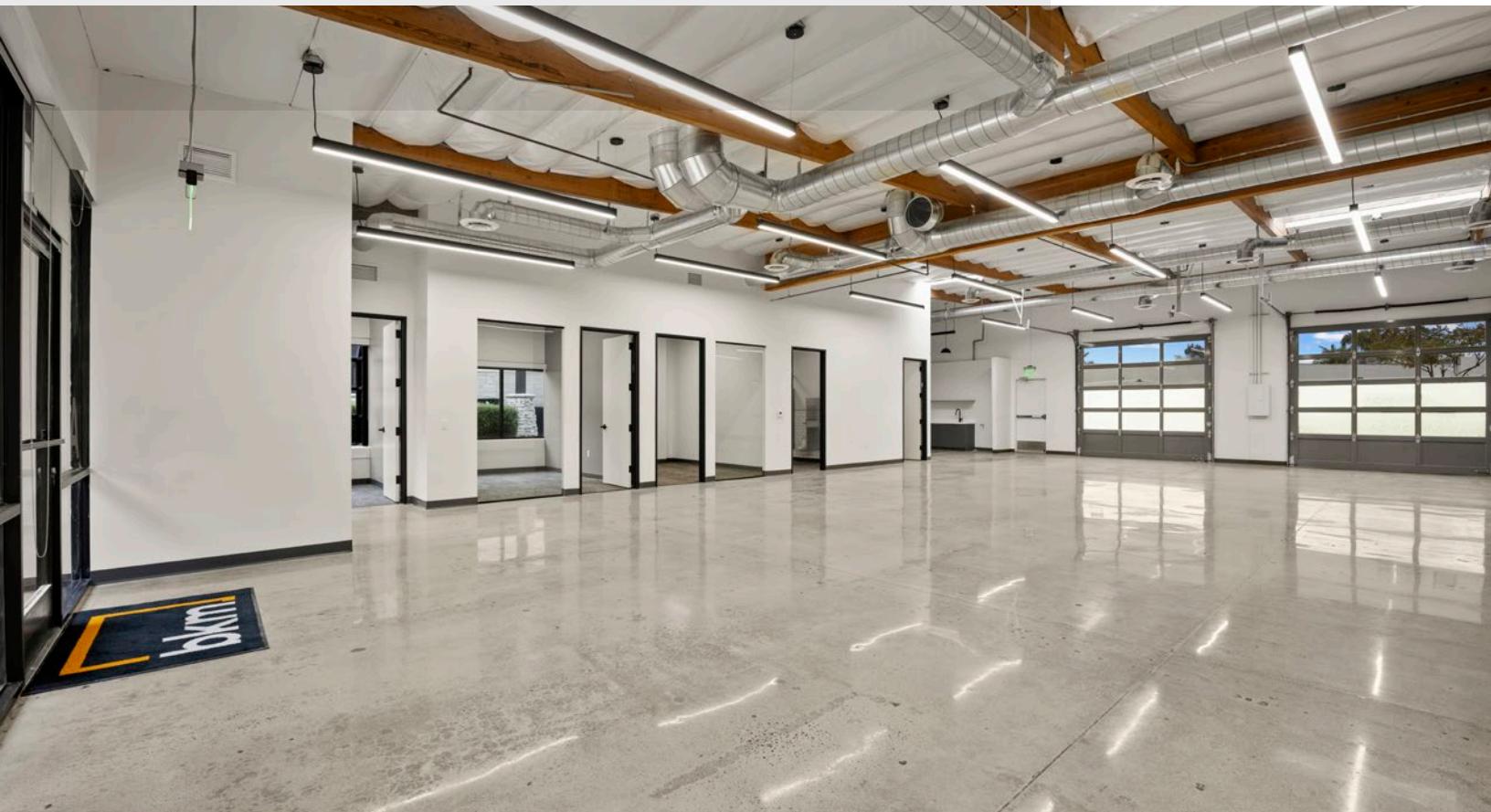


Source: Colliers, 3Q 2025



ABOUT THE AUTHOR

BKM Capital Partners is a proven real estate fund manager and operator focused exclusively on investing in small and mid-bay light industrial properties in the United States. Headquartered in Newport Beach, CA, with more than 135 employees in 16 offices, BKM implements a value-add strategy targeting under-managed and under-capitalized assets. Since 2013, BKM has invested nearly \$6 billion in 160+ small and mid-bay light industrial properties comprising over 28 million square feet. Its approach includes the acquisition, refurbishment, repositioning and active management of these industrial properties to drive NOI growth and generate a strong IRR and multiple on invested equity. BKM's foundation is built upon Focus, Operational Excellence, Technology, and Client Service.



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